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CH, TW, KN, IR
SUBJECT: JAN 13 US-CHINA INTERPARLIAMENTARY DIALOGUE: TAIWAN, NORTH
KOREA, IRAN, TRADE, EXCHANGE RATE, IPR

This message is Sensitive but Unclassified. Please handle accordingly; not for Internet publication.

¶1. (SBU) Summary: Taiwan arms sales and trade issues dominated the 5th session of the U.S. China Inter-Parliamentary Group (IPG), which took place in Beijing January 13. Senator Patty Murray (D-WA) led the U.S. Senate delegation to the IPG, which also included Senators Christopher "Kit" Bond (R-MO) and Roland Burris (D-IL). During the morning session, Chinese delegates, including National People's Congress (NPC) Vice Chairman Lu Yongxiang and NPC Foreign Affairs Committee Chairman Li Zhaoxing, denounced U.S. arms sales to Taiwan, stressing the sale negatively impacted China's "core interests." On Iran and North Korea, the NPC members advised the United States to be patient and focus on diplomacy rather than sanctions. During the afternoon plenary, Senators Murray, Bond, and Burris stressed the need to reduce the U.S.-China trade imbalance, reform China's exchange rate regime, and better protect intellectual property. The Senators highlighted concern with new PRC "indigenous innovation" government procurement rules that favor Chinese companies over foreign firms. Chinese delegates argued that U.S.-China trade would be more balanced if the U.S. lifted restrictions on high-tech exports. Changing the RMB exchange rate, the Chinese side argued, would only cause the U.S. trade deficit to shift to other low-cost countries. They denied that the indigenous innovation rules discriminated against foreign firms. Following the plenary sessions, the U.S. delegation met with NPC Chairman and Communist Party Politburo Standing Committee Member Wu Bangguo. Wu offered a positive assessment of U.S.-China relations and voiced support for increasing inter-parliamentary exchanges. Differences over Taiwan and other issues, Wu said, should not be allowed to detract from the overall relationship. End Summary.

5th Session of Senate-NPC Dialogue

¶2. (U) Senator Patty Murray (D-WA) co-chaired the 5th session of the U.S.-China Inter-Parliamentary Group (IPG) meeting held January 13 in Beijing. Senators Christopher "Kit" Bond (R-MO) and Roland Burris (D-IL) also participated. National People's Congress Vice Chairman and Communist Party Central Committee Member Lu Yongxiang acted as co-chair for the Chinese side. The dialogue consisted of morning and afternoon plenaries followed by a meeting with NPC Chairman and Communist Party Politburo Standing Committee Member Wu Bangguo.

Morning Plenary: Taiwan Arms Sales

¶3. (SBU) In his opening remarks, Lu Yongxiang gave a positive assessment of U.S.-China bilateral ties, noting the "smooth transition" to the Obama Administration and President Obama's successful visit to China in November. Senator Murray emphasized the state of Washington's close historic and trade ties to China. Virtually every business in the state had an interest in China, Senator Murray noted. Nevertheless, she added, the economic relationship had several hurdles to overcome, including reducing

intellectual property theft, improving market access for U.S. companies, and boosting green energy cooperation.

14. (SBU) Much of the morning session was dominated by denunciations of U.S. arms sales to Taiwan by the Chinese delegates. NPC Foreign Affairs Committee Chairman (and former Foreign Minister) Li Zhaoxing criticized the U.S. approval, reported in the media the previous week, of the sale of arms, including Patriot PAC-3 missiles, to Taiwan. China was "disappointed and indignant" about the planned sale. The sale violated the third U.S.-China Joint Communique, Li asserted, and jeopardized cross-Straits stability. The United States could not use the excuse of the Taiwan Relations Act, which was a domestic law, to sell arms to Taiwan and interfere in China's affairs. The United States should change its "Cold War mentality" and respect China's "core interests," particularly regarding Taiwan and Tibet, Li said.

15. (SBU) Senator Bond responded that the United States did not support Taiwan independence and the Taiwan Relations Act did not recognize Taiwan as a separate country. Senator Bond noted that mainland China continued to target 1,200 missiles at Taiwan, and he urged the mainland to demilitarize the Taiwan issue. If Taiwan and mainland China could come to a "permanent agreement," then Congress would revisit the arms sales issue, Senator Bond said. Li retorted that missile deployments were China's own affair and if the United States deployed missiles in Texas or Alaska, "China would not care." The arms sales only increased the "arrogance" of pro-independence forces on Taiwan and were unacceptable to China, Li argued.

North Korea and Iran

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16. (SBU) Senator Bond stressed the importance of both the North Korea and Iran nuclear issues, noting that the United States wanted to restart the Six-Party Talks with North Korea. Senator Bond urged China to work with Russia and the United States to resolve the Iran nuclear issue although, Bond added, he knew China was less supportive of sanctions against Tehran. Chinese delegates urged patience on both Iran and North Korea. NPC Deputy Secretary General Cao Weizhou said China also wanted to achieve denuclearization of the Korean Peninsula. However, Cao said, China believed that the long-standing lack of trust between the United States and the DPRK was part of the problem, and the United States should emphasize diplomacy rather than sanctions. NPC Deputy Wu Xiaoling, a former deputy governor of the People's Bank of China, said that like the DPRK, China was once saddled with a failed planned economy. The DPRK, she predicted, would change, although reform of the North Korean system would be gradual and the United States should exercise patience.

People-to-People Exchanges, Visa Issues

17. (SBU) NPC deputy Cheng Jinpei commented on the need to boost people-to-people contact and increase the role of young people in bilateral relations. Cheng voiced support for the Obama Administration's goal for 100,000 American students to study in China over the next four years. Cheng noted that Chinese students were having a much easier time obtaining visas to the United States than previously was the case, though he also said that Chinese technical experts seeking to attend scientific conferences continued to experience visa denials and delays. Cheng said the United States should adopt a more "objective, rational and reasonable" visa policy toward Chinese scientists. Senator Burris agreed with Cheng on the need to increase student exchanges. Citing his own experience as an exchange student in Hamburg, Germany, Senator Burris said such programs were crucial for improving understanding between the United States and China.

Afternoon Plenum: Trade Gap, Exchange Rate, IPR

18. (SBU) Senator Murray, who chaired the afternoon IPG session, told the NPC delegates the United States was committed to economic

rebalancing for more sustainable growth, and that China also would benefit from policy adjustments to rebalance its economy. She said one bilateral issue in need of continuing collaboration was the trade relationship, as one in three jobs in Washington State were in some way tied to trade. The benefits of trade for both countries were obvious, but the bilateral imbalance was a growing concern, with many Americans blaming China for U.S. job losses. In the past year, new measures by both countries had further strained the relationship. Among U.S. areas of concern in China were the value of the RMB and the exchange rate system, IPR protection, market access for U.S. farm products, and financial service sector access for American firms. Senator Murray sought new approaches on energy security and the environment, where U.S. and Chinese interests were closely aligned. On climate change, she said both countries were committed to emissions reduction, but we needed new policies and strong, decisive steps together.

RMB Exchange Rate

¶9. (SBU) Responding to the Senator's concerns about China's exchange rate, Wu Xiaoling said that although the RMB's exchange rate appeared undervalued, it was necessary to consider relative costs, including China's low labor and resource prices, which distorted the exchange rates. The exchange rate was a consequence rather than a cause of economic structure, and addressing the U.S.-China trade imbalance required more than exchange rate changes, which alone would only shift the U.S. trade deficit to other low-cost countries.

China needed to increase the flexibility of its exchange rate system to better reflect market levels; as it did so, the United States should open more of its high-technology exports to China. Senator Bond agreed that China's exchange rate system should be more flexible.

Intellectual Property

¶10. (SBU) Senator Bond observed that China had made efforts and progress on IPR protection, but more steps could be taken. Senator Burris commended China's efforts at the national level, but questioned its success at local levels. Failure to protect IPR hurt China's relations with other countries, Senator Burris added, as well as China's own economic growth. NPC delegate and Shandong University President Xu Xianming responded that China had made "remarkable progress" on IPR protection, including the 2009 revision of the Proprietary Law, and put in place a legal framework and

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national program. China employed a dual system of administrative and judicial protection, which together handled about 30,000 IPR cases per year. China was attempting to promote IPR protection through educational and public awareness programs. Lu Yongxiang added that the Chinese government and people understood the need to ensure a fair environment for creators of intellectual property, but said that "frankly" that IPR protection remained a problem, especially with local governments and small and medium-sized enterprises (SMEs) that were the "weak link." He noted recent revisions of patent, trademark and copyright laws. He said arbitration provided a lower-cost means to resolve IPR disputes.

Indigenous Innovation Rules in Public Contracts

¶11. (SBU) Senators Murray, Bond and Burris all expressed concern about new "indigenous innovation" government procurement regulations that would give preference to products developed and patented in China. Senator Bond said the new regulations appeared to be a "glaring trade barrier" that went far beyond legitimate protection for patents and trademarks. Many companies had moved tens of thousands of jobs to China and shared their technology; the new regulations would deter them from doing so. The Chinese delegation denied the rules discriminated against foreign companies. Lu Yongxiang said the Chinese government had emphasized independent innovation in recent years, but still relied on foreign countries for eighty percent of its science and technology. He said indigenous innovation included innovation by foreign companies in

China. Cheng Jinpei opined that the translation "indigenous innovation" was inaccurate and that "open innovation" might be better.

Wu Bangguo: "Meaningful Year" in Bilateral Relationship

¶12. (SBU) Following the conclusion of the 5th IPG session, Senators Murray, Bond and Burris met with NPC Chairman and Communist Party Politburo Standing Committee member Wu Bangguo. Wu reviewed accomplishments in U.S.-China relations in 2009, including the November visit by President Obama and cooperation on multi-lateral and regional issues such as North Korea, Iran and the Copenhagen climate change summit. Wu noted that he and Speaker of the House Nancy Pelosi had exchanged visits in 2009. Looking ahead, Wu forecasted that 2010 would be an important year for bilateral ties, with President Hu traveling to the United States and the second session of the Strategic and Economic Dialogue.

¶13. (SBU) Wu noted that given the "multi-polarity" of the world, China and the United States were increasingly inter-twined and inter-dependant, a reality that demanded close cooperation to address new challenges. Although the two sides still had differences, such as on the issues of Tibet and arms sales to Taiwan, each side understood the other's stance. Wu hoped that both the United States and China could proceed from a strategic and long-term perspective and refrain from allowing these differences to detract from the overall relationship.

Local/Trade Issues

¶14. (SBU) CODEL Murray members told Wu that the U.S. and Chinese IPG delegations had held "intense" discussions on a range of issues. Wu said that he hoped the inter-parliamentary discussions would enhance mutual trust. Senator Bond noted the utility of inter-parliamentary exchanges in advancing local issues and goals. Bond mentioned that Chinese air freight companies had expressed interest in establishing a hub at Lambert-St. Louis International Airport. Senator Murray noted that Boeing would have its new 787 Dreamliner available to Chinese airlines soon. Wu said that during his recent visit to the United States he had touched upon cooperation with the U.S. firm Honeywell and he had later facilitated the opening of the first solar power plant in China.

¶15. (U) This message was cleared by the CODEL.